

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
CONSUMERS ENERGY COMPANY)	
for accounting and ratemaking approval of)	Case No. U-18127
depreciation rates for gas utility plant.)	
_____)	

At the March 28, 2017 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

In its August 28, 2012 order in Case No. U-16938, the Commission approved Consumers Energy Company's (Consumers) depreciation rates and further directed Consumers to file a new gas utility depreciation case and an updated gas utility depreciation study by August 28, 2016. On August 1, 2016, Consumers filed its application, along with supporting testimony and exhibits, requesting accounting and ratemaking approval for revised depreciation rates for its natural gas utility plant.

A prehearing conference was held on September 28, 2016, before Administrative Law Judge Sharon L. Feldman (ALJ). Consumers and the Commission Staff participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving all issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that the Commission should approve the depreciation rates shown on Attachment 1 to the parties' settlement agreement. The parties agree that these depreciation rates reflect a decrease of approximately \$3.4 million in annual gas depreciation expense for Consumers based on investment levels assumed in the company's filing.

The parties also agree that the depreciation rates shown in Attachment 1 to the settlement agreement should become effective January 1, 2017, which is the first day of the projected test year in the company's pending rate case, Case No. U-18124. The parties also agree that the impact of the depreciation rates on Case No. U-18124 is calculated correctly as shown in Exhibit S-12.7 from Case No. U-18124, shown in the settlement agreement as Attachment 2. The parties state that it is their understanding that if the Commission issues a final order in this depreciation case before it issues a final order in Case No. U-18124, the depreciation rates approved in the instant case should be used for purposes of Case No. U-18124. Further, the parties agree that if a refund results from the company's self-implementation of rates in Case No. U-18124, the refund will be based on total revenue consistent with the governing law. MCL 460.6a(1) requires the utility to refund any portion of the "total revenues" collected through the application of an interim surcharge that exceeds the "total" that would have been collected through the application of the rates authorized in the final order, with no adjustments.

The parties also agree that the Commission should approve Consumers' request to modify its current accounting practices to record all auction salvage proceeds in account #390 – structures & improvements, allocated annually between electric, gas, and common plant.

Lastly, the parties agree that Consumers should be required to file its next natural gas depreciation case no later than five years from January 1, 2017.

The Commission finds that the settlement agreement is reasonable and in the public interest, and therefore should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Consumers Energy Company's revised depreciation rates for its gas utility plant, as set forth in Attachment 1 to the settlement agreement, are approved effective January 1, 2017.

C. Consumers Energy Company's request to modify its current accounting practices to record all auction salvage proceeds in account #390 – structures & improvements, allocated annually between electric, gas, and common plant is approved.

D. Consumers Energy Company shall file its next natural gas depreciation case no later than five years from January 1, 2017.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of March 28, 2017.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for Accounting and Ratemaking)
Approval of Depreciation Rates for)
Gas Utility Plant.)
_____)

Case No. U-18127

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 431 of the Michigan Administrative Hearing System's Rules of Practice and Procedure before the Michigan Public Service Commission ("MPSC" or "Commission"), Mich Admin Code; R 792.10431, the undersigned parties agree as follows:

WHEREAS, on August 1, 2016 Consumers Energy Company ("Consumers Energy" or the "Company") filed an application requesting approval of revised depreciation rates for gas utility plant. The Company filed testimony and exhibits in support of its positions concurrently with its application.

WHEREAS, the initial prehearing conference in this proceeding was held on September 28, 2016. The parties to the case are Consumers Energy and the Commission Staff. The Company's filed testimony and exhibits were bound into the record on February 28, 2017. The record shows the Company has made changes in their accounting and procedures pursuant to Staff concerns brought forth in past depreciation cases.

NOW THEREFORE, for purposes of settlement of Case No. U-18127, the undersigned parties agree as follows:

1. The parties agree that the Commission should approve the depreciation rates shown on Attachment 1 (Attachment A to the Application in this case) to this Settlement Agreement. The

parties agree that such depreciation rates reflect a decrease of approximately \$3.4 million in annual gas depreciation expense for Consumers Energy based on investment levels assumed in the Company's filing.

2. The parties agree that the depreciation rates shown in Attachment 1 shall become effective January 1, 2017, which is the first day of the projected test year in the Company's pending rate case, Case No. U-18124. The parties also agree that the impact of the depreciation rates on Case No. U-18124 is calculated correctly as shown in Exhibit S-12.7 from Case No. U-18124, shown here as Attachment 2. The understanding of the parties is that if the Commission issues a final order in this depreciation case before it issues a final order in Case No. U-18124, the depreciation rates approved in the instant case shall be used for purposes of Case No. U-18124. Further, the parties agree that if a refund results from the Company's self-implementation of rates in Case No. U-18124, the refund will be based on total revenue. MCL 460.6a(1) requires the utility to refund any portion of the "total revenues" collected through the application of an interim surcharge that exceeds the "total" that would have been collected through the application of the rates authorized in the final order, with no adjustments.

3. The parties agree that the Commission should approve Consumers Energy's request to modify its current accounting practices to record all auction salvage proceeds in account #390 – Structures & Improvements, allocated annually between electric, gas and common plant.

4. The parties agree that Consumers Energy shall file its next natural gas depreciation case no later than five years from January 1, 2017.

5. This settlement is entered into for the sole and express purpose of reaching a compromise among the parties. All offers of settlement and discussions relating to this settlement are, and shall be considered, privileged under MRE 408. If the Commission approves

this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to, or use, this Settlement Agreement or the order approving it, as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided, however, such references may be made to enforce or implement the provisions of this Settlement Agreement and the order approving it.

6. This Settlement Agreement is based on the facts and circumstances of this case and is intended for the final disposition of Case No. U-18127. So long as the Commission approves this Settlement Agreement without any modification, the parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Settlement Agreement. The parties agree and understand that this Settlement Agreement does not limit any party's right to take new and/or different positions on similar issues in other administrative proceedings, or appeals related thereto.

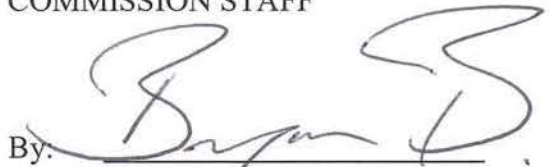
7. This settlement is not severable. Each provision of the Settlement Agreement is dependent upon all other provisions of this Settlement Agreement. Failure to comply with any provision of this Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of the Settlement Agreement, this Settlement Agreement shall be deemed to be withdrawn, shall not constitute any part of the record in this proceeding or be used for any other purpose, and shall be without prejudice to the pre-negotiation positions of the parties.

8. The parties agree that approval of this Settlement Agreement by the Commission would be reasonable and in the public interest.

9. The parties agree to waive Section 81 of the Administrative Procedures Act of 1969 (MCL 24.281), as it applies to the issues resolved in this Settlement Agreement, if the Commission approves this Settlement Agreement without modification.

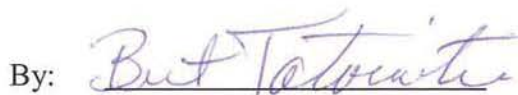
WHEREFORE, the undersigned parties respectfully request the Commission to approve this Settlement Agreement on an expeditious basis and to make it effective in accordance with its terms by final order.

MICHIGAN PUBLIC SERVICE
COMMISSION STAFF

By: 

Bryan Brandenburg (P77216)
Assistant Attorney General
Public Service Division
7109 W. Saginaw Hwy
Lansing, MI 48917

CONSUMERS ENERGY COMPANY

By: 

Bret A. Totraitis (P72654)
Gary A. Gensch (P66912)
Attorneys for Consumers Energy
Company
One Energy Plaza
Jackson, MI 49201

Attachment 1

CONSUMERS ELECTRIC COMPANY
Comparison of Existing and Proposed
Annual Depreciation Accrual Rates

ATTACHMENT 1
Case No. U-18127
Page 1 of 2

Account	Description	Existing Rates	Proposed Rates
<u>Storage Plant</u>			
350.2	Storage Rights Of Way	1.47%	1.21%
351.2	Compressor Station Structure	1.97%	2.21%
351.3	Measuring & Regulation Station	2.34%	2.51%
351.4	Other Structure	1.98%	1.79%
352.1	Storage Leaseholds And Other	1.50%	1.27%
352.3	Well Construction	2.94%	2.49%
352.4	Well Equipment	2.99%	2.72%
353.0	Lines	2.29%	2.20%
354.0	Compressor Station Equipment	3.07%	2.26%
355.0	Measuring And Regulating Eq	2.99%	4.31%
356.0	Purification Equipment T	3.53%	3.02%
357.0	Other Equipment	3.59%	3.56%
<u>Transmission Plant</u>			
365.2	Rights Of Way	1.34%	1.38%
366.0	Structures & Improvements	2.09%	2.37%
367.0	Mains	1.68%	2.24%
368.0	Compressor Station Equipment	2.76%	2.30%
369.0	Measuring And Regulating St	3.36%	3.15%
370.0	Communication Equipment	6.03%	6.49%
371.0	Other Equipment	2.71%	3.71%
<u>Distribution Plant</u>			
374.2	Easements (Rights of Way)	1.20%	1.08%
375.0	Structures & Improvements	1.52%	2.05%
376.1	Mains - Bare	1.06%	1.83%
376.2	Mains - C & W	1.63%	1.67%
376.3	Mains - Cast Iron	NA	0.78%
376.4	Mains - Copper	NA	0.03%
376.5	Mains - Plastic	2.50%	2.37%
378.0	Measuring And Regulating St	2.49%	2.19%
380.1	Services - Bare	1.89%	0.00%
380.2	Services - C & W	2.87%	2.78%
380.4	Services - Copper	3.08%	2.62%
380.5	Services - Plastic	4.01%	3.85%
381.0	Meters	2.43%	2.77%
381.1	AMR Meters	2.43%	4.97%
382.0	Meter And Regulator Install	2.76%	2.57%
383.0	House Regulators	7.63%	3.67%

CONSUMERS ELECTRIC COMPANY
Comparison of Existing and Proposed
Annual Depreciation Accrual Rates

ATTACHMENT 1
Case No. U-18127
Page 2 of 2

Account	Description	Existing Rates	Proposed Rates
<u>Gas General Plant</u>			
389.2	Rights Of Way	2.04%	1.87%
390.0	Structures & Improvements	2.68%	2.41%
391.0	Office Furniture And Equipment	7.20%	6.67%
391.2	Computer Equipment	19.71%	19.60%
393.0	Stores Equipment	4.44%	4.00%
394.0	Tools Shop And Garage Equip	5.04%	5.00%
395.0	Laboratory Equipment	7.56%	6.67%
396.0	Power Operated Equipment	7.83%	7.36%
397.0	Communication Equipment	6.93%	6.67%
398.0	Miscellaneous Equipment	6.39%	6.67%

Attachment 2

MPSC AUDIT REQUEST

CASE NO: U-18124
DATE OF REQUEST: 8/29/16
NO. RFN-3
REQUESTED BY: Robert F. Nichols II
DATE OF RESPONSE: 9/6/2016
RESPONDENT: James Fraga

Question:

Please provide the following documents or data. If the requested item is already included in the Company's filing, please provide a reference to its location (exhibit, workpaper, etc.)

1. Please provide all of the impacts on the instant case if the depreciation rates requested in U-18127 Consumers Gas Depreciation Rate Case are approved as requested (each line item impacted and the overall revenue requirement impact. Please show high level calculations).

Answer:

1. Please see attachment "U-18124 MPSC Staff Audit Rqst 030_Attachment.xlsx."

Consumers Energy Company
Gas Rate Case U-18124
Audit Request #030
Incremental Revenue Requirement Impact of
Requested New Depreciation Rates - Case No. U-18127
for the Test Year Ended December 31, 2017

Line	Description	U-18124 Based On U-16938 Depreciation Rates	U-18124 Based On U-18127 Depreciation Rates	Revenue Requirement Impact
	(a)	(b)	(c)	(d)
1	Total Projected Utility Plant	\$ 6,690,666	\$ 6,690,666	\$ -
2	Depreciation Reserve	2,947,973	2,946,486	(1,487)
3	Net Utility Plant	3,742,693	3,744,180	1,487
4	Pre-Tax Rate of Return			9.06%
5	Return on Investment			135
6	Depreciation Expense	218,803	215,829	(2,974)
7	Total Revenue Requirement Impact			\$ (2,839)

Sources:

Line 1 Column (b): WP-JRF-161, Line 21, Column (e) + WP-JRF-162, Line 65, Column (e)
Line 1 Column (c): Property Model using U-18127 Depreciation Rates
Line 2 Column (b): WP-JRF-161, Line 44, Column (e)
Line 2 Column (c): Property Model using U-18127 Depreciation Rates
Line 3: Line 1 - Line 2
Line 4: WP-JRF-153
Line 5: Line 3 x Line 4
Line 6 Column (b): WP-JRF-162, Line 86, Column (d)
Line 6 Column (c): Property Model using U-18127 Depreciation Rates
Line 7: Line 5 + Line 6